23 September 2019

Committee Secretary
Joint Standing Committee on Trade and Investment Growth
Parliament House
CANBERRA
ACT 2600

Email: jsctig@aph.gov.au

RE: Inquiry into supporting Australia's exports and attracting investment

The Australian Sugar Milling Council (ASMC) is the peak body for raw sugar manufacturers in Australia.

We represent five sugar manufacturing companies which collectively produce 90 percent of Australia's raw sugar at their 17 sugar mills in Queensland. Our members also market over 50% of Australia's raw sugar production.

An independent analysis commissioned by ASMC earlier this year identified that the total contribution to the economy from the raw sugar manufacturing sector was in excess of $4 billion in 2017/18; underpinning more than 22,600 jobs.

Reliance on trade

Australia exports around 3.8m tonnes, or more than 80% of the total raw sugar produced each year. Most exports go to the Asian region, with key markets including South Korea, Japan and Indonesia.

Given our reliance on exports, trade policy liberalisation and improving market access are key priorities to enhance the sector's future prospects.

In the protected and often distorted global sugar market, preferential, duty-free trade deals are needed to broaden market opportunities and ultimately, to increase the demand for, and value of Australian high-quality raw sugar.

We strongly support the ongoing efforts of the Australian Government to pursue comprehensive and ambitious trade agreements. While some historical gains have been made in trade agreements, sugar has missed out on some of the benefits obtained for Australian agriculture in agreements with the United States of America and China.

Therefore it is critical that Australian raw sugar is a beneficiary of future negotiations with the European Union, United Kingdom, and any future negotiations for improvements in access to the USA and China markets.

We also fully endorse the current Australian Government action – alongside the Brazilian and Guatemalan governments - at the World Trade Organisation against India's sugar subsidies that have distorted world markets and negatively affected prices.

Strengths of the Australian raw sugar industry

Australia is one of the lowest cost manufacturers of raw sugar globally.

Our strengths include:

- Full exposure to intense global competition has spurred innovation and efficiencies in all aspects of our farming and milling practices.

- Access to six storage terminals with 2.5 million tonnes of bulk storage capacity at ports strategically located along the Queensland coast. This provides the ability to export during favourable market conditions, and enables supply year round to our refinery customers.

- Through the co-generation of renewable energy from sugarcane biomass, most raw sugar mills are net exporters of renewable energy – a material benefit when the cost of Australian electricity purchased from the grid has almost doubled over the past 10 years.

- Through industry levies and contributions from governments, we collectively invest almost $40 million per annum into research and development through the industry-owned company, Sugar Research Australia.

The industry faces considerable challenges

- Global raw sugar prices have fallen in real dollar terms on average 2 percent per annum since the 1970s.

- Deteriorating terms of trade (output prices relative to input prices) are a common feature of competitive commodity markets and require concerted industry and government efforts in response.

- Our biggest competitors – Brazil and Thailand – are pursuing multiple strategies to reduce dependency on volatile raw sugar markets whereas Australia has no such plan, no supporting policy framework and over 90% of revenues are derived from raw sugar

- The growing regulatory burden and associated costs; the depressed global price situation; and prevailing signals to growers (from social licence to climate variability) have stalled productivity growth.

- Assuming constant commercial cane sugar (CCS) values, sugar prices, and exchange rates, this means industry revenues need to grow more than 2 percent per annum to retain profitability, competitiveness and resilience.

In summary, the Australian sugar industry is heavily reliant on raw sugar, is severely limited in terms of expansion opportunities - and in fact is slowly losing productive land due to competition from other uses - and our productivity growth has stagnated.

The need for industry revitalisation

Production and revenues are not keeping pace with the global trend of declining prices for raw sugar (-2% year on year since the 1970s).

ASMC has identified a need to revitalise the sugar industry under three clear pillars: diversification of revenue streams, cane acreage growth, and cane and sugar yield improvements.

Successful sugar industries around the world (Australia's competitors in the global sugar market) have identified that diversification is key to the long term sustainability of sugar production and have moved away from just being sugar producers. While our sugar millers generate electricity on a commercial scale, we have not expanded significantly into production of bio products.

The companies that have invested in Australian sugar milling businesses are well aware of the value of diversified revenues in terms of improving the international competitiveness of the Australian industry.

What is currently missing is an industry/government strategy that acknowledges the policy and financial barriers blocking growth and investment on a commercial scale.

Regulatory burden an impediment to growth

To support its focus on a plan to revitalise the raw sugar industry, ASMC and its members are completing a review of the impact of all new and amended regulations on the sector over the past 14 years.

Our members evaluated changes in legislation since 2006 and concluded the sector has experienced a substantial increase in regulatory burden. The sector assesses that 40% of interventions during that period have imposed a medium or high burden.

As a striking example, relevant government charges imposed on the sector have increased between 2.5% and 6.6% compound average growth rate (CAGR), while Australia's CPI has only equalled 1.8% over the relevant period.

Faced with an increasing regulatory burden, the Australian raw sugar industry must continue to invest and innovate to remain an efficient sugar producer at the lowest quartile of the cost curve.

Marketing regulations add costs inhibit investment

The Australian Sugar Milling Council opposed the federal Sugar Code of Conduct when it was introduced in 2017. We also opposed the related Queensland legislation. We see both as unnecessary regulations that deliver no net benefits to industry and regional communities, de-value current milling assets, and place a higher level of uncertainty over future investments that can help strengthen the industry's future.

While recommending the Code remain in the interim while the industry participants "…conclude their adjustment to commercially negotiated cane supply contracts", the 2018 government review of the federal Competition and Consumer (Industry Code-Sugar) Regulations 2017, largely supported ASMC's position.

The review recommended:

- The code should be amended to make clear that pre-contractual arbitration applies to raw sugar only and not to any other product obtained from sugar cane. This will provide millers with regulatory certainty and facilitate investment in milling assets and development of innovative products.

- The Australian sugar industry representative bodies should work collaboratively to develop a long-term strategy to address shared future challenges.

- The code should be reviewed in two years to assess whether commercial relationships between the parties have matured and whether the code is still needed.

The review also recommended that "the provision that allows growers to choose their marketer should be repealed from the code (as) it is inconsistent with the objectives and benefits of the recent evolution of the industry's regulatory arrangements…"

Regrettably, the Australian Government did not accept all of the recommendations of the review in its response in December 2018, and for those it did accept has yet to implement those recommendations.

Foreign investment provides access to capital for renewal, expansion and jobs

Ownership changes in the Australian raw sugar manufacturing sector since 2010 have resulted in more than $2 billion being invested to purchase and upgrade milling and associated assets.

This predominantly foreign investment in the Australian raw sugar manufacturing industry has played an important role in underpinning regional economies with a flow on effect to the Australian economy as a whole.

The injection of capital has helped the Australian sugar industry to move towards its economic potential through funds that have enhanced existing operations and financed new ventures. Investment has been used to modernise infrastructure, leading to improved productivity and employment opportunities.

This commitment has also opened up additional export opportunities for Australian raw sugar. The new relationships and international connections have added a fresh perspective and stimulated innovation via the introduction of technologies and services new to the local industry, building regional confidence by underpinning the future of sugar milling businesses and sugarcane growers.

Australian Sugar Milling Council

Without the level of foreign investment over the past 10 years in Queensland, there is little doubt that more sugar mills would have closed.

Conclusion

The Australian Government is to be commended for its support of the raw sugar manufacturing and exporting sector, particularly in the area of trade policy and market access.

However there remains significant commercial challenges and regulatory burdens that must be addressed to ensure the industry can continue to adapt and operate to its full potential – as a critical contributor to regional communities and the Queensland economy.

Yours sincerely

David Pietsch
Chief Executive Officer